

# City of Detroit

## CITY COUNCIL

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ANNE MARIE LANGAN  
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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*

DATE: February 2, 2010

RE: Emergency Procurement Contracts for Randy K. Lane, PC;  
Wolinsky & Company, PC; and Plante & Moran, PLLC  
(Recommend Approval)

### Introduction

As you know, a few weeks ago the Finance Department presented to your Honorable Body three emergency accounting service contracts in order to assist the City with the completion of the 2009 Comprehensive Annual Financial Report (CAFR), and the 2008 and 2009 Single Audit Reports. The contracts were:

- Randy K. Lane, PC contract (CPO 2790500) for an increase of \$675,000 with new not-to-exceed amount of \$1,350,000. If approved by Council, the contract would be completed on June 30, 2010.
- Wolinski & Company, CPA, PC contract (CPO 2790540) for an increase of \$300,000 with new not-to-exceed amount of \$350,000. If approved by Council, the contract would be completed on June 30, 2010.
- Plante & Moran, PLLC contract (CPO 2790508) for an increase of \$1,325,000 with new not-to-exceed amount of \$2,500,000. If approved by Council, the contract would be completed on June 30, 2010.

The total increase in the contracts equal \$2,300,000. The Finance Department indicated the increase would be paid out of appropriation 00245 Accounts Division-Administration and cost center 230130 General Accounting in particular. The Fiscal Analysis Division's review of the financial reporting system showed that \$5.6 million is available in the appropriation and \$3.2 million available in the cost center to pay for these contract increases.

I want to thank the Finance Department for the responses to my numerous questions on these contract requests.

### **Administration's Rationale of presenting contracts as Emergency Contracts**

Council should be reminded that the previous Randy Lane contract expired on October 31, 2009; the previous Wolinski contract expired on September 30, 2009; and the previous Plante & Moran contract expired on October 31, 2009.

The Finance Department presented these contract amendments, as emergency procurement contracts because it felt the City's financial health would be in jeopardy if these required accounting services were not provided immediately. Because the 2009 CAFR and 2008 Single Audit are late, the State Treasurer could start withholding state revenue sharing payments to the City of Detroit, and the US Department of Housing and Urban Development (HUD) could act to put a freeze on the City's federal funds. For these reasons, the Finance Department presented these contract amendments as "emergency contracts" under provision contained in Article 5 Chapter 18 of the City Code (section 18-5-5).

The State Treasurer withheld from the City \$23 million in state revenue sharing because of the lateness of the 2008 CAFR. Since the 2008 CAFR was completed on November 20, 2009, the State recently remitted the \$23 million to the City. So far in 2010, the State has not withheld any additional state revenue sharing payments. Norman White, CFO informed the State Treasurer that the 2009 CAFR would be completed by June 30, 2010; so apparently, the State has accepted this timeline, but not in writing at this time. Finance points out that under the State Revenue Sharing Act of 1971, the State "may" withhold state revenue payments.

In regards to federal funds, late Single Audits could jeopardize the City's receipt of over \$300 million in grant funds. To my knowledge, however, no federal grant funds have been withheld thus far.

Therefore, I somewhat question if State and Federal dollars would have been withheld from Detroit if these contract amendments were presented to your Honorable Body in January 2010 under the normal contracting process. Although it is your fiduciary responsibility to do your due diligence to review contracts, Council typically does not "hold" contracts that are deemed urgent, make sense, and properly funded.

### **Retention of Contractors**

Wolinski completed their accounting services by the end of their previous contract's expiration date, September 30, 2009. Wolinski provided very specific accounting services related to the 2008 CAFR under their previous contract.

However, Randy Lane and Plante & Moran provided extensive accounting services related to the 2008 CAFR, and the Administration chose to retain the

services of these contractors even though their contracts had expired in order to get the 2008 CAFR completed by November 20, 2009.

In addition, Mr. White wants to issue the 2008 Single Audit report by March 31, 2010; complete a draft of the 2009 CAFR for KPMG's (independent auditor) review to finalize the 2009 CAFR by June 30<sup>th</sup>; and issue the 2009 Single Audit report by August 31, 2010.

Given the need to issue the 2008 CAFR and meet these very aggressive timelines, Mr. White wanted to resume the services of Randy Lane and Plante & Moran. As a result, the Finance Department executed emergency contract amendments on December 18, 2009 for Randy Lane and Plante & Moran for the reasons previously explained.

Under the executed emergency amendments, Finance paid Randy Lane invoices totaling approximately \$103,000, and paid a Plante & Moran invoice for about \$95,000 after December 18<sup>th</sup>. So, it does appear that Finance did not pay for any services until the "emergency amendments" were executed.

Meanwhile, although the Wolinski contract amendment is also presented to Council as an emergency contract to assist in preparing the 2009 CAFR, the contractor has not performed any services since September 30<sup>th</sup> (when its previous contract expired); an emergency amendment was not executed for them on December 18<sup>th</sup>, and thus, no payments have been made to Wolinski to date under an "emergency" basis. There was one payment to Wolinski for about \$4,300 in December, but that was for services rendered through September 30<sup>th</sup>.

### **Fiscal Analysis Division's reaction to the Emergency Contracts**

Of course, I understand the importance of getting out the 2008 CAFR and immediately starting work on the 2008 Single Audit, 2009 CAFR and 2009 Single Audit. However, in my mind, an "emergency" is an event out of the ordinary, such as a natural disaster.

The Administration had ample time to present the Randy Lane, Wolinski and Plante & Moran contract amendments to City Council under the normal contracting process before their previous contracts had expired. It was presumptuous to allow Randy Lane and Plante & Moran to continue working, set up emergency amendments during Council's winter recess, and pay these contractors on the basis of an emergency without Council's approval of the contract amendments. This practice should cease immediately.

It is important to note that these contract amendments all expire on June 30, 2010, if Council approves them. To meet the aggressive timelines of issuing the 2009 Single Audit by August 31, 2010, and issuing the 2010 CAFR by December 31, 2010 (which would meet the State deadline), Finance would no doubt present

contract amendments for these contractors to continue working past June 30<sup>th</sup>. **We urge the Administration to present any contract amendments to Council at least a month in advance before June 30<sup>th</sup> for the Honorable Body's review and consideration.**

It is also my hope that any contract amendments presented before June 30<sup>th</sup> would reflect no increases in hourly rates. We applaud the Administration that the current Randy Lane hourly rates are based on a 30% discount; the Wolinski rates have been frozen since 2006; and the Plante & Moran rates have been frozen since 2007.

For Council's information, Finance has indicated that it will issue a Request for Proposal for assisting in producing the 2011 CAFR by September 30, 2010. A copy of the RFP should be shared with your Honorable Body and the Auditor General's Office.

### **Observations**

Based on my review of Plante & Moran invoices and the scope of services currently before Council, I noticed that this contractor has and would spend a lot of time in assisting the Water and Sewerage Department accounting personnel in completing the enterprise's financial statements. As communicated by KPMG last Tuesday, a lot of last minute work was performed on behalf of this department to make huge adjustments and get the 2008 CAFR out.

I recommend that the Budget, Finance and Audit committee monthly monitor the progress of the Single Audits and CAFRs with the assistance of the Auditor General's Office. If necessary, this committee should go into a weekly monitoring mode starting in May until the 2009 CAFR is produced. Special attention should be given to the progress made in producing the Water and Sewerage financial statements on a timely basis.

Lastly, it is my understanding that with the recent hiring of Tom Lijana as group executive under CFO Norman White, there may be a significant restructuring of the Finance Department with the goal of expediting and bringing the production of the CAFRs and Single Audits more in-house. Council should pay close attention to the Finance Department's budget that will be presented to you as a part of the proposed 2010-11 budget on April 13<sup>th</sup>.

Although it has been beneficial to use Randy Lane, Wolinski and Plante & Moran to help Finance produce CAFRs and Single Audits that are ever increasing in complexity, and provide the requisite accounting skills and manpower lacking in-house, especially after numerous accounting position cuts over the years due to budget constraints; still, we cannot negate the fact that these outside contractors have cost the City a lot of money. From 2005 to 2009, the City has spent \$2.1

million for Randy Lane accounting services; \$1.1 million for Wolinski accounting services; and \$2.3 million for Plante & Moran accounting services.

It is my hope that a significant restructuring in Finance can begin the reduction of paying for expensive outside accounting contractor services.

### **Recommendation**

Based on the above information and importance of producing the City's critical financial statements on a more timely basis and avoid the potential withholding of state revenue sharing and federal grant dollars, I recommend approval of the Randy Lane, Wolinski and Plante & Moran contract amendments.

I do not concur with Administration's presentation of these contract amendments as "emergency contracts", however.

cc: Council Divisions  
Auditor General 's Office  
Norman White, CFO  
Tom Lijana, Group Executive-Finance  
Floyd Stanley, Deputy Finance Director  
Andre DuPerry, Chief Procurement Officer  
Mike Bridges, Finance  
Andre DuPerry, Chief Procurement Officer  
Pamela Scales, Budget Director  
Kamau Marable, Mayor's Office

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